

Message Text

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ACTION EUR-25

INFO OCT-01 ISO-00 AID-20 CEA-02 CIAE-00 COME-00 EB-11

EA-11 FRB-02 INR-10 IO-14 NEA-10 NSAE-00 RSC-01

OPIC-12 SP-03 TRSE-00 CIEP-02 LAB-06 SIL-01 SWF-02

OMB-01 EURE-00 DRC-01 PA-04 PRS-01 USIA-15 ABF-01

FSE-00 /156 W

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P R 031200Z APR 74

FM AMEMBASSY STOCKHOLM

TO SECSTATE WASHDC PRIORITY 1726

INFO US MISSION EC BRUSSELS 689

AMEMBASSY COPENHAGEN

AMEMBASSY HELSINKI

AMEMBASSY OSLO

US MISSION OECD PARIS 1689

UNCLAS STOCKHOLM 1446

E.O. 11652 N/A

TAGS: EFIN, SW

SUBJ: SWEDISH RIKSBANK RAISES RATE TO 6 PERCENT

REF: (A) STOCKHOLM 1389; (B) STOCKHOLM 1124

1. RIKSBANK RAISED DISCOUNT RATE FROM FIVE TO SIX PERCENT, EFFECTIVE APRIL 3, AND ORDERED COMMERCIAL BANKS TO RAISE CASH RESERVES, EFFECTIVE APRIL 5, FROM ONE TO FIVE PERCENT OF DEPOSITS. MOVE HAS LEFT BANKING COMMUNITY JOKING THAT STIMULATIVE PACKAGE WHICH GOVERNMENT GIVETH WITH RIGHT HAND HATH BEEN TAKEN AWAY WITH LEFT.

2. RIKSBANK ACTED FROM CONCERN WITH ACCELERATING OUTFLOW OF FOREIGN EXCHANGE FROM MID-FEBRUARY THROUGH MARCH, NOW TOTALING EQUIVALENT OF SKR 2 BILLION (ABOUT UNCLASSIFIED

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\$454 MILLION AT CURRENT RATE OF SKR 4.40 EQUALS \$1.00).

RIKSBANK GOVERNOR KRISTER WICKMAN IS REPORTED TO HAVE SAID AT PRESS CONFERENCE APRIL 2 THAT DRAIN ON RESERVES IN LAST TWO WEEKS WAS FASTEST SWEDEN HAD EVER EXPERIENCED, AMOUNTING TO 1.5 BILLION IN LAST TEN DAYS OF MARCH ALONE.

3. LOSS OF FOREIGN CURRENCIES, RIKSBANK SOURCE ACKNOWLEDGED TO EMBOFF APRIL 2, WAS IN PART RESULT OF INTERVENTIONS NECESSARY TO KEEP KRONA IN EC SNAKE. SVENSKA HANDELSBANKEN SOURCE SAID PROBLEM HAS ALSO BEEN RELUCTANCE OF SWEDISH EXPORT COMPANIES TO REPATRIATE EARNINGS IN FACE OF MORE PROFITABLE OPPORTUNITIES TO HOLD MONEY ABROAD, ESPECIALLY IN DM ASSETS.

4. HIGHER CENTRAL BANK DISCOUNT RATE DOES NOT CLOSE GAP BETWEEN INTEREST-RATE STRUCTURES OF SWEDEN AND CONTINENT, BUT AT LEAST IT REDUCES PROFITABILITY OF HOLDING MONEY ABROAD IN VIOLATION OF SWEDISH RULES REQUIRING PROMPT REPATRIATION. RAISING OF CASH RESERVE REQUIREMENT IS LOGICAL COMPANION MOVE TO RAISING CENTRAL RATE, BUT ALSO TREATS PROBLEM OF HIGH LIQUIDITY IN SWEDISH SOCIETY, WHICH, TOGETHER WITH "STIMULATIVE PACKAGE" EFFECTIVE APRIL 1, THREATENED TO OVERHEAT ECONOMY. RAISING CASH RESERVE REQUIREMENT IS EXPECTED TO SUCK SKR 2.9 BILLION BACK INTO RIKSBANK.

5. AT SAME TIME, NATIONAL DEBT OFFICE ANNOUNCED ITS INTENTION TO FLOAT 10-YEAR BOND ISSUE AT 7-1/2 PERCENT INTEREST.

6. PRESS RELEASE ISSUED BY RIKSBANK APRIL 2 SAID IN PART: QUOTE: LOWER SWEDISH INTEREST-RATE LEVEL, COMPARED TO LEVELS ABROAD, AND HIGH LIQUIDITY IN SWEDISH ECONOMY HAVE EXPOSED SWEDISH FOREIGN RESERVES TO PARTICULAR STRAINS. CAPITAL MOVEMENTS IN AND OUT OF COUNTRY FOR LAST YEAR HAVE RESULTED IN NET OUTFLOW, WHICH HAS BEEN BALANCED, HOWEVER, BY SURPLUS IN INTERNATIONAL PAYMENTS ACCOUNT. CAPITAL OUTFLOW HAS BEEN ACCENTUATED IN PAST MONTHS, IN PART BECAUSE OF UNREST ON INTERNATIONAL CURRENCY MARKETS. AT SAME TIME, ONE MUST COUNT ON A WEAKENING IN CURRENT ACCOUNT. IN LAST FEW WEEKS, AS UNCLASSIFIED

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RESULT OF ALL THIS, A VERY CONSIDERABLE OUTFLOW OF CURRENCY HAS OCCURRED. SINCE MID-FEBRUARY RIKSBANK HOLDINGS OF FOREIGN RESEKXVES HAVE DECLINED BY OVER SKR 2 BILLION. UNQUOTE

7. GENERAL REACTION TO RIKSBANK MOVES WAS RECOGNITION OF NECESSITY TO CURB SHARPLY RISING OUTFLOW OF FOREIGN RESERVES, CAUSED BY SWEDISH COMPANIES LAGGING IN REPATRIATION OF FUNDS

AT A TIME WHEN IMPORT EXPENDITURES WERE RISING (REF A). STOCKHOLM DAILY SVENSKA DAGBLADET COMMENTED APRIL 3 THAT NEW MOVES INTRODUCE "DECIDED COLLISION OF INTERESTS BETWEEN FISCAL AND MONETARY POLICY; HOWEVER, IT IS NOT INEXPLICABLE." SPOKESMEN FOR EMPLOYERS' FEDERATION OF WHITE COLLAR WORKERS UNION (TCO) ALSO TOOK NOTE OF POLICY CONTRADICTIONS. STOCKHOLM PAPER DAGENS NYHETER APRIL 3 COMMENTED HOWEVER, THAT MONETARY MOVES ONLY APPEARED TO COUNTER STIMULATIVE PROGRAM BUT IN FACT SUPPORTED IT BY STANCHING INTOLERABLE OUTFLOW OF RESERVES. RIKSBANK OFFICIAL IN CONVERSATION WITH EMBOFF MADE SAME POINT AND SKANDINAVISKA ENSKILDA BANKEN (SE BANK) ECONOMIST ALSO NOTED THAT MEASURES WERE NOT INTENDED TO COUNTER STIMULATIVE PROGRAM BUT RATHER TO ACHIEVE A BALANCING OF CURRENCY FLOW. SE BANKER SPECULATED THAT THESE MIGHT, IN FACT, BE ONLY THE FIRST OF OTHER MEASURES THAT COULD BE FOUND NECESSARY.

8. THERE HAS BEEN SOME PUBLIC CONCERN WITH POSSIBLY UNDESIRABLE EFFECTS OF MONETARY MEASURES. CLAES-ERIK ODHNER, CHIEF ECONOMIST FOR CONFEDERATION OF SWEDISH TRADE UNIONS (LO), WHILE NOT OPPOSING RIKSBANK MOVES, THOUGHT THAT COST-INCREASING EFFECT OF A RISE IN DISCOUNT RATE WOULD PROBABLY BE GREATER THAN THE BRAKING EFFECT ON INFLATION OF A TIGHTENING OF CREDIT. JONAS NORDENSON, EXECUTIVE DIRECTOR OF BANKS ASSOCIATION, ACCORDING TO NEWSPAPER REPORTS, HAS QUESTIONED WHETHER INCREASE IN CASH RESERVE REQUIREMENT TO 5 PERCENT OF DEPOSITS MIGHT NOT BE A DEPRESSING FACTOR. VISITING AMERICAN BANKER FROM LONDON OFFICE OF GIRARD TRUST, HOWEVER, SAW POSSIBLY STIMULATIVE IMPACT, SUGGESTING TO EMBOFF THAT BUSINESS COMMUNITY COULD TAKE RIKSBANK MOVES AS SIGNAL OF STILL TIGHTER CREDIT CONDITIONS TO COME AND MIGHT HASTEN INVESTMENT TO AVOID LESS FAVORABLE CREDIT TERMS LATER.

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: CENTRAL BANK, PRIME INTEREST RATES, CURRENCY CONTROLS, FINANCIAL RESERVES
Control Number: n/a
Copy: SINGLE
Draft Date: 03 APR 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974STOCKH01446
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D740074-0631
From: STOCKHOLM
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740469/aaaacsztel
Line Count: 146
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators:
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: (A) STOCKHOLM 1389; (B) STOCKHOLM 11, 24
Review Action: RELEASED, APPROVED
Review Authority: golinofr
Review Comment: n/a
Review Content Flags:
Review Date: 24 MAY 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <24 MAY 2002 by bryansd0>; APPROVED <05 JUN 2002 by golinofr>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: SWEDISH RIKSBANK RAISES RATE TO 6 PERCENT
TAGS: EFIN, SW
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005